Privatization in Jordan

Why is Privatization a need in Jordan?

While Successive governments in Jordan have adopted free economy based on the individual initiative and supply and demand forces, the public sector continued to play a vital role in designing and directing the economic policies to serve national economy; that has included subsidies and fixed pricing of goods and services whenever needed. The public sector's role has also extended to building, developing and maintaining the infrastructure, and even going in partnership with the private sector for the purposes of setting up major productive projects, such as minerals (cement, phosphate and potash), electricity, communications, public transport, tourist and industrial investments, and others, when the private sector was unable to shoulder the burden of those projects on its own, or given the high risk involved in them.

In due course and with the increased private sector involvement in the economic life, the growing entrepreneurship of many Jordanian businessmen and investors in and out of Jordan, and the burgeoning economic, social, legislative and regulatory responsibilities of the government, the latter turned to privatization towards the beginning of the first quarter of 1985. Such a step was inspired from the Royal Letter of Instructions that urged the then government to encourage the private sector to assume its leading role in economic development throughout the sectors, including health and education.

Privatization was part of the overall economic package that the government adopted as of the early nineties, namely the economic adjustment program and self-reliance in the aftermath of the economic crisis that befell the country. Besides, new economic developments were taking place at the global scene in terms of globalization, rise of competitiveness, lifting of customs and administrative barriers to liberate world economy, capital flows, and the communications and information revolution. Thus arose the concomitant need for Jordan to open up to the world, through partnership agreements with the European Union (EU) and accession to the World Trade Organization (WTO), or by opting for a free Arab trade zone and penetrating new unconventional markets. Finally, the government has set out a gamut of macro and micro economic objectives that it aims to achieve through privatization.

Privatization in Jordan was not a mere economic luxury, a fad, or simulation of other countries' experiences, it was dictated and imposed on the Kingdom as a result of various surveys and studies of public-sector projects. The conclusions of said studies demonstrated the prevalence in the public sector institutions and corporations of a large degree of inefficiency in the administrative and employment policies, squander of public funds, administrative archaism, substandard services and high indebtedness, while the private sector firms were yielding higher returns and results and generating better job opportunities, given the high level of efficiency in the administrative and employment policies.

Objectives of privatization in Jordan

The privatization process aims at achieving the following objectives:

1. Optimizing project efficiency, productivity and competitiveness by activating the forces of the market and eliminating economic imbalances and distortions.
2. Mobilizing domestic savings and attracting more private domestic, Arab and foreign investments by opening up the markets and abolishing state monopoly.
3. Stemming the flow of public funds by way of assistance or loans to private projects, in order to alleviate the financial burden of the Treasury.
4. Reducing the need to turn to external lending for the purposes of covering the deficit of existing projects or financing of new projects.
5. Deepening the local capital market and directing private savings to long-term investments.
6. Facilitating access to technology and modern management techniques much needed to foster competitiveness on the global markets and access to new and stable markets.

Progression of privatization in Jordan

In order to regulate the privatization process in Jordan, the government set up a special unit within the Prime Ministry in July 1996, called the Executive Privatization Unit (EPU), under the supervision of a higher council chaired by the prime minister with the membership of several ministers and heads of concerned departments. In a nutshell, the EPU is responsible for privatization operations within the government's overall policy. As such it performs several tasks, inter alia, selection of projects to be privatized, project assessment, election of appropriate form of privatization, preparation of offers for interested parties, and appraisal of submitted offers of privatization.

Given the importance of privatization in Jordan, and with the aim of providing an appropriate legislative framework, a Privatization Law No. 25 of the year 2000 was promulgated in that year. It set out explicit provisions to regulate the privatization process and to enable its implementation, and provided the necessary ground rules for the transparency and clarity of the implementation procedures of privatization operations under mechanisms that are subject to government control. Here are some of the most salient features of this Law:

- Setting up a Higher Ministerial Committee for Privatization, chaired by the Prime Minister, with the membership of the Minister of Finance, the Minister of Trade and Industry, the Minister of Planning, the Minister of Justice, the Governor of the CBJ, the Chairman of the Executive Privatization Commission (EPC), the President of the Accounting Board, the relevant minister when any issue related to his/her ministry or any connected institution is discussed, and three experts appointed by the Council of Ministers upon recommendation from the Prime Minister.

- Establishing the EPC, which is the legal successor to the EPU. One of the most important objectives of this EPC is to study and follow up on the implementation of restructuring and privatization operations.

- Setting up the Privatization Revenue Fund, under the supervision of the Higher Ministerial Committee for Privatization.

- Giving the government a distinct voting power through the “Gilded/Golden” Share, which empowers it to oppose resolutions of a Company's board of directors or general assembly, if the national interest so requires.

Privatization of government institutions and corporations is already on its way, and here is a summary of the most significant phases of its passage:

The government's ownership in public shareholding companies (the portfolio of Jordan Investment Corporation)

The government's participation in public shareholding companies was in the vicinity of 15% when the privatization process began, then went down to less than 6% after it sold its shares in most of these companies. At present, most of the government's ownership is vested in the Arab Potash, Jordan Phosphate Mines, Jordan Cement Factories and Jordan Petroleum Refinery companies. This is in a brief outline what the government has done in this respect:

1. It sold 87% of the Jordan Hotels and Tourism Company to Zara Investments in 1995.
2. It sold all its equity in a limited number of shareholding companies throughout 1996-1997 (Jordan Paper & Cardboard Factories, and Jordan Tobacco & Cigarettes).
3. It sold 33% of the shares of Jordan Cement Factories (JCF) to Lafarge, a French company, in 1998.
4. It sold 1% of the shares of JCF to JCF's employees at a preferential rate.
5. It sold 8% of the shares of JCF to the Social Security Corporation.
6. It sold all its equity in a large number of shareholding companies in 1999 (The Housing Bank, Cairo Amman Bank, Export & Finance Bank, Jordan Dairy Co., Petra Tourist Transport Co., The Industrial Commercial Agricultural Co., Jordan Electric Power Co., Jordan Ceramic Industries Co., Jordan Worsted Mills Co., and Jordan Tanning Co.).
7. It sold its shares in some public shareholding companies in 2000 (Arab International Hotels Co. and Jordan Poultry Processing & Marketing Co.).
8. The government sold its participation in some public shareholding companies in 2001 (Jordan Paper & Cardboard Factories Co., Jordan Press Foundation/Al-Rai')
9. The Government sold its participation in National Shipping Lines Company during 2002.
10. The Government will sell its participation in the following companies during 2002: (Jordan Express Tourism Transport, Public Mining, Machinery Equipment Renting & Maintenance, General Maintenance Co. Ltd., Royal Jordanian for Tourism & Travelling Co. Ltd.)

Public Transport Corporation

1. It split the lines of the Corporation into four units under concession.
2. It signed 10-year agreements with 3 local companies to operate buses on the inner lines of Greater-Amman municipality. 165 new buses were operated to serve customers on said lines.

Jordan Tourism & Spa Complex (Ma'in Spas)

In April 1999 a 30-year lease agreement of Ma'in Spas was signed between the Company and Ali Ghandoor/ACCOR consortium. Under the agreement the consortium shall modernize the facilities of the Spa to attract therapeutic tourism, and shall pay a certain percentage of the Spa's net income to the Company throughout the 30 years.

JTC

1. On February 27, 1996 the Council of Ministers approved the conversion of Jordan Telecommunications Corporation to a public shareholding company Jordan Telecom Company (JTC) wholly owned by the government. On October 10, 1997, the Council of

Ministers decided to set the shares that were to be offered to a strategic partner at 40% of JTC total shares.
2. On January 23, 2000, 40% of JTC shares were sold to the Arab Bank/France Telecom consortium, 1% to the employees' Savings Fund and 8% to the Social Security Corporation. MOBILECOM, a JTC wholly owned cellular-phone company, was set up and started its operations on September 15, 2000.
3. The Government sold 15% of its share in Jordan Telecom Company (JTC) through an Initial Public Offering (IPO) in Jordan, Arabian Gulf and Europe, from 9/10/2002 to 29/10/2002. 70% of the offered shares were sold which represent 10.5% of the Company's capital. Therefore, now the Government's ownership represents 41.5%.

Aqaba Railway Company

1. It signed a 25-year lease agreement with a consortium of US companies and Jordan Kawar Company, whereby the companies undertake to modernize, maintain, expand and operate Aqaba Railways.
2. Two new lines (Shediyeh and Wadi 2) of a total distance of 40 km shall be laid out to facilitate phosphate export operations.

Water Authority

1. In April 1999 an agreement was signed with Lyonnaise Des Eaux Company to manage the water network in the Greater Amman area.
2. After signing this agreement, Jordan was able to secure a $55-million loan from the World Bank to maintain the water network in the Greater Amman area.

Royal Jordanian (RJ)

1. Alia Corporation/ RJ Law was repealed and RJ was converted to a wholly owned government company.
2. Supporting activities, such as the Duty Free, the Catering Centre, aircraft maintenance, training, and engine overhauling, were separated from the main activity (aviation); and all these units were registered as separate companies wholly owned by the government.
3. The Airports Duty Free Company was sold to a Spanish company Aldeasa for $60 million.
4. Training Centre Company was sold to Boeing Flight Safety International for $18 million.
5. Four international companies specialized in aircraft catering manifested interest in buying the Aircraft Catering Centre.
6. The shares of the Engine Overhauling Center shall be offered for sale in a competitive international bid.
7. An Aircraft Maintenance Center was registered in preparation for its sale to investors specialized in aircraft maintenance through a competitive international bid.
8. The entirety of RJ shares in Alia Hosting Company, Alia Hotel and Royal Tours have been transferred to RJ Investment Company.

RJ Aviation Academy

1. On August 18, 2000 the Council of Ministers approved the proceeding with the restructuring and privatization of RJ Aviation Academy.
2. A steering committee was set up to design a business strategy for the coming period and the required steps to implement it.

3. A technical committee shall be set up to follow up on the operation, with the help of a World Bank expert.

Electricity Sector

1. The Electricity Power Authority was converted to the National Electricity Power Company, wholly owned by the government.
2. The activities of the National Electricity Power Company were separated into three companies, generation, distribution and transport. The generation and distribution shall be privatized, while transport and electrical control activities shall continue to be owned by the government.
3. A German consulting company Fitchner was hired to assist in company separation.
4. In its meeting of January 10, 2001, the Consultative Economic Council approved the privatization strategy of the Electricity sector. This comprised of laying out a draft amending law to the Electricity Law in force to secure total independence of an Electricity Sector Regulatory Commission and separation of its presidency from the government body; and the Council of Ministers approved that. Setting up the said Commission will take place with the assistance of a specialized expert; and its activities will later encompass all the Energy sector activities as of March 2001. The Commission was supplied with the necessary experts and qualified personnel to start operation in April 2001. In the same month, steps to hire a technical, legal, financial and managerial consortium will be completed. A study on the privatization strategy of the generation and distribution companies was ready in December 2002, to cover the following: Several forms of evaluation of companies up for privatization; submission of recommendations on development of the regulatory and legal framework of the electricity power sector, to be harmonious with the objectives of attracting domestic and foreign investment; preparation of technical documents on the companies to be privatized in February 2002; selection of either of the following privatization methods - selling out to a strategic investor, or selling out to a financial and technical syndicate (a group of financial investors including a technical partner); approval of the adopted method of privatization and proceeding with and completing it on March 2002.

Postal Sector

1. On January 25, 2000 the Council of Ministers approved the privatization strategy of the postal sector, under which the Postal Law currently in force shall be amended to allow for private sector investment, to separate the Postal Department from the Ministry of Post and Telecommunications, and to convert the Department into a public shareholding company fully owned by the government.
2. In its meeting of January 10, 2001, the Consultative Economic Council approved the privatization strategy of the postal sector. It is based on separating the postal sector from the Ministry of Post and Telecommunications; converting the Postal Department into a shareholding company owned by the government; opening up the postal sector for private sector competition and investment; setting up a Postal Regulatory Commission under the umbrella of the Telecommunications Regulatory Commission (TRC), in a manner compatible with the principle of autonomy of regulatory commissions from the government body, by virtue of a resolution of the Council of Ministers; bringing in an expert to set out the terms of reference and memoranda of understanding; evaluating the postal sector along with its assets; preparing invitations to tender from specialized and qualified postal organs to sign up a four-year management agreement of the sector in August 2001; and contracting with a specialized and qualified postal organ in September 2001.

3. A Management Agreement shall be signed with an international postal body for a transitional period of four years. The Dutch Nepostal Postal Affairs Company was hired to execute the first phase of the postal-sector-restructuring program.

Supply Projects (ex- projects of the Ministry of Supply)

1. A public shareholding company fully owned by the government was incorporated. This company encompasses all ex-projects of the Ministry of Supply (the Mill, silos, and regular and refrigerated warehouses).
2. In April 2001 a technical, legal, managerial and financial consultative consortium was appointed to re-assess company assets, select the optimum method of privatization and provide support to proceed with the privatization process according to the adopted method.

Mining Sector

Drilling activities were separated from exploration, production and marketing in the National Petroleum Company. A separate drilling company was established on February 2, 2000 under the name of Petra Drilling Company, in preparation for its privatization.

Aqaba Port

In its meeting of January 10, 2001, the Consultative Economic Council approved the privatization strategy of the Aqaba Port. This comprised of splitting up the Port activities and services into separate units, and privatization of said units in phases according to an order of priority. The government shall keep its ownership of the installations and land along with its supervisory role, while the investment, management, operation and maintenance activities will be turned to the private sector as per special agreements. A Steering Committee shall be set up headed by the president of the Special Economic Zone Board of Commissioners to supervise studies, set out and implement a privatization strategy and to set up a task force to follow up on the implementation procedures in February 2001. A financial, legal, technical and managerial consortium shall be hired in May 2001 to provide the necessary expertise and assistance to complete the comprehensive and swift reforms undertaken by the Ports Corporation by November 2001, to study the best viable options for Port privatization on the basis of technical studies and surveys, and to submit them to the Steering Committee for examination and submission to the Council of Ministers in November 2001, for approval of the adopted method of privatization and proceeding with and completing it by May 2002.

Jordan Phosphate Mines Co.

In its meeting of January 10, 2001, the Consultative Economic Council approved the privatization strategy of the Company. It consists of organizational, administrative, financial and technical restructuring of the Company; focus on high-rate phosphate production; support of export promotion plans; promotion of private investment in the sector; separation of the Company's various activities to determine the burdens of and solutions for each of them; separation of the Fertilizers Unit from the Company and its conversion into a separate company in preparation for its privatization; and selection of the best privatization options that would raise the Company's competitiveness. The government's ownership in the Company amounts to 41.4% of the shares.

Arab Potash Co.

The Consultative Economic Council approved the privatization strategy of the Company. It consists of separating the Company's main activities from the supporting ones (transportation, housing and medical services, and others); allowing for private sector investment; selecting the best privatization options that would implement the Company's expansionist plans, improving the standard of services provided, and enhancing the Company's efficiency and competitiveness. On that way, the Government sold 50% of its share in the Arab Potash Company which amounted 21,622,550 shares on October 16, 2003 to a strategic holder; the Canadian Potash Corporation of Sasketchewan. The Government ownership in the company declined to 27%.